DYLEX ANNUAL REPORT 1978

CONTENTS

Annual Meeting
The Annual Shareholders Meeting will be held at 11:30 a.m. Thursday, June 7, 1979 in the Alberta Room, Royal York Hotel, 100 Front Street West, Toronto, Canada.

Years ended January following		1978	1977
Operating summary	Net sales ('000)	$329,512	$271,285
	Net earnings before extraordinary item ('000)	$ 12,082	$ 8,541
Per share before extraordinary item	Earnings—1st quarter	$ 0.22	$ 0.17
	—2nd quarter	0.14	0.12
	—3rd quarter	0.79	0.56
	—4th quarter	0.89	0.62
	Total	*$ 2.04*	*$ 1.47**
	Dividends	$ 0.325	$ 0.225
Financial position	Working capital ('000)	$ 46,202	$ 37,943
	Current ratio	2.0:1	2.2:1
	Asset turnover	2.8	2.8
	Return on sales	3.7%	3.1%
	Return on equity	20.1%	16.8%
	Shareholders' equity ('000)	$ 65,215	$ 55,059

*Quarterly results have been restated to reflect inventory tax credit.

2.04
36
1.68

36
5
180

36
6
2.16

For many Canadians 1978 was a difficult year with double digit inflation, unemployment at record highs, the Canadian dollar dropping to the lowest levels since the 1930's and experts providing contradictory projections about prospects for the economy. These factors combined to give little reason for optimism.

For the shareholders of Dylex, however, the fiscal year ended February 3, 1979 was yet another year of record growth in both sales and profits. Your company had sales of $329.5 million, up 21.5 percent from the previous year and profits increased from $8.5 million to $12.1 million. Earnings per share were $2.04 compared with $1.47 in the previous year—an increase of 41.5 percent.

The dramatic improvement resulted primarily from the following factors:

• An impressive growth in sales by our retail and manufacturing divisions.
• A turnaround in both Family Fair and National Knitting operations.
• Contribution to earnings from our new investment, Bi-Way Stores Limited.

The year in review
In July 1978, your company acquired a 50 percent interest in a very successful chain, Bi-Way Stores Limited. Bi-Way operates stores in southern Ontario and has one outlet in the north eastern United States. It sells a broad range of family clothing and housewares at discount prices. Over the past five years the company has maintained an impressive growth rate in excess of 20 percent. Bi-Way complements our existing discount chain, Family Fair, and provides your company with an added presence in the growing family market. The innovative, entrepreneurial management of Bi-Way is an extra benefit to the Dylex family of companies.

Braemar, which is now a separate chain merchandised to appeal to the more sophisticated woman, carefully adjusted its merchandise to meet the perceived needs of its customers. The excellent sales gains achieved over the year are an indication of consumer acceptance of this approach.

Fairweather continued to show its superiority in women's fashion retailing by strong sales gains and profit improvement. Suzy Shier opened 17 new stores, mostly in Ontario. This rapid expansion has provided some problems for management but will give the chain an expanded base of operations for future development.

The introduction of Big Steel Man to serve the young men's market has been successful. The concept, evidenced by changes in store layout and supported by a dynamic television campaign, has been well received by the young man wanting to upgrade his wardrobe. To date, Big Steel Man has enabled Dylex to capture a larger share of the men's wear market.

Tip Top, our major men's wear retailer, had a mixed year during 1978. An upturn in sales in the fall and at Christmas, combined with tight management controls throughout the year, resulted in a reasonable profit for the year. The Harry Rosen chain continued as a fashion leader among Toronto area executives and professionals. By careful attention to merchandise selection and operating costs management was able to increase sales and profits.

During the past few years there has been some concern about the operations at Family Fair. The chain had experienced difficulty in achieving its perceived potential. A number of remedial changes combined in 1978 to produce Family Fair's first profit in several years. Among the changes were lower prices to provide customers with real value in basic family clothing, an inventory control program designed to reduce markdowns and procedures to control head office and store operating costs.

In the early 70's, Thrifty's took advantage of consumers' demand for jeans and similar youth oriented casual clothing to build a large and prosperous chain. Recently there have been growing signs of a change in consumer preference. In anticipation of apparently inevitable changes in demand, management at Thrifty's has for some time now been diversifying its product lines. Although profits are still at a healthy level, Thrifty's did experience a levelling in store-for-store sales in 1978. We are confident that Thrifty's will continue its development as a strong, stable and profitable chain, catering to the younger customer.

National Knitting is now receiving increasing product acceptance from Canadian retailers. Sales increased dramatically during 1978 as old customers increased their orders and new customers were attracted to National's product line.

Manchester Children's Wear continued its outstanding success story. In 1978 it increased sales by 57 percent. This increase followed an impressive sales gain in the previous year. In manufacturing, volume is the key to profitability and Manchester can achieve greater sales if the division's ability to produce and ship coats is further increased. The effective management team at Manchester is taking the steps necessary to meet these goals.

Nu-Mode Dress continued as one of the mainstays among our manufacturing divisions. Sales increased over 18 percent and profits remained above average.

During the year the Bank of Canada used interest rates as one of its main tools in its attempt to bolster the Canadian dollar. Although interest rates were raised to record levels they did not impair our ability to finance operations. The rates did increase the cost of borrowing and adversely affected profit results.

Subsequent to the year-end, Dylex sold an interest in Harry Rosen to the division's general manager. The sale produced an attractive return on our investment.

Company goals—a review
In our 1976 annual report we set out a number of goals which we expected to achieve by 1982. We did so in the belief that it was important to give our shareholders an indication of the company's future direction. The goals we set out are still important benchmarks for evaluation of management's effectiveness. As a result we are again monitoring the key indicators of our progress.

• We are continuing to have success in our efforts to provide our customers with good value. Sales gains as well as consumer research studies support the validity of our approach.
• Retail sales increased 20 percent in 1978. Since our goal to reach retail sales of $500 million by 1982 was first published we have had an average annual increase of 16 percent, exceeding the target necessary to reach our objective. The sales gain has come from both productivity gains in existing outlets and from the addition of new units.
• Our retail divisions have continued to make modest gains towards the goal of a pre-tax return of 10 percent on sales.

• The manufacturing divisions had a solid year. The improvements in National Knitting, combined with the continued growth of the other divisions is encouraging.
• Our financial position remained strong during the year, as evidenced by the 2:1 working capital ratio at the year-end.
• Employee benefit and development programs were improved with visible results in terms of employee relations.

Dylex's operating philosophy
Although the name Dylex may not be a household word to the consumer, its operating companies are familiar to the purchasers of men's, women's and family clothing.

When Dylex acquires an interest in a chain it invites the entrepreneurs who built the chain to continue to run it with a high degree of autonomy. In many instances the senior officers will have a direct financial interest in the success of their particular operation. Each of our divisions has separate buying and operating personnel to deal directly with suppliers and customers. The variety of approaches found under these circumstances improves the selection available to consumers. Because of the diversity of our chains, customers will have a number of options available to them when they are making their buying decisions.

The size of the retail market place ensures no one retailer or retail chain has an all-pervading influence on the range and price of merchandise. The availability of choice for the consumer provides the challenge to individual retail chains and results in a strong company and, indeed, total industry.

The years ahead
Last year we added approximately 278,000 square feet of retail space across the country. This year we expect to open at least 300,000 square feet. Contrary to opinions expressed by some experts we do not believe that Canada has a surplus of retail space at this time. A number of excellent opportunities still remain available to our chains. We are aware of a number of projects in the years ahead that will provide excellent expansion potential in new regional malls, the renovation and upgrading of existing facilities and in downtown redevelopment projects.

In addition, our Fairweather and Tip Top chains have just begun to take advantage of sites available in smaller communities. These municipalities are often the focal point of much larger trading areas. Smaller, carefully designed stores can prove quite profitable. Both Suzy Shier and Town and Country expect to open a large number of outlets this year. Their small size stores provide a great deal of flexibility in selecting new outlets, particularly through the purchase of leases in successful malls.

Family Fair's growth has been restricted in the past few years as it overcame problems of market definition and real estate position. A number of expansion opportunities are available to the chain now it has turned the corner and it has embarked on a carefully planned program of leasing new locations.

Over the past few years price increases in clothing have tended to lag behind those in other sectors of the economy. For example, overall prices increased 9.0 percent in 1978, while clothing prices increased 3.8 percent. Prices during the coming year are expected to increase 10-15 percent. Escalating prices raise serious concern about future spending habits. For example in men's wear it is possible, if current price trends continue, for the price of an average suit to rise to over $200. At this price we believe that men will cut back on suit purchases and look for alternatives such as sports coats, pants and casual clothes. Our men's wear divisions, cognizant of the trends, are looking at alternative marketing strategies. In addition our own manufacturing operations are continuing to seek new techniques to reduce production costs.

The impact on our women's wear divisions is somewhat obscured by seasonal style changes and the generally lower price points found in women's clothing. At this stage we are attempting to continue to provide customers with good value by a careful monitoring of price points and quality.

Our Bi-Way and Family Fair divisions have a well established reputation for providing value to price conscious consumers. By a continuation of careful buying, low margins and good inventory control we expect to be able to minimize the anticipated price increases for our customers.

During the year we completed the installation of point-of-sale terminals in all our retail divisions. The data collection capability of this equipment will enable us to utilize computer systems to provide accurate up-to-date data on items such as fast moving merchandise. We will be better able to provide our customers with the merchandise they want and also improve our profitability through better inventory control.

It is management's present intention to investigate the possibility of acquiring a major apparel organization in the immense United States market. Although we are primarily interested in companies with proven track records which will provide a solid base for further growth, this does not preclude the likelihood that we may buy, or invest in, an existing small chain if it has strong management.
To date our U.S. operations consist of a coat manufacturing facility in Colebrook, New Hampshire and a Bi-Way store in Massachusetts.

Dividend policy
The dividend rate on Common and Class "A" shares was increased to an annual rate of 40 cents per share from 30 cents per share in fiscal 1978. The increase reflects the company's policy of increasing dividends in direct relationship to our earnings growth.

Appreciation
Over the past few years your company has had large increases in both sales and earnings. Gains of these magnitudes would not have been possible without the dedicated efforts of all our employees. On behalf of our shareholders, the Board of Directors and management, we thank them for their outstanding contribution.

Wilfred Posluns
President

April 6, 1979


BIG STEEL ■ HARRY ROSEN ■ TIP TOP ■ BIG STEEL ■ HARRY
HARRY ROSEN ■ TIP TOP ■ BIG STEEL ■ HARRY ROSEN

Attention to detail is only part of the service Tip Top provides.

INTRODUCTION

Two financial analysts who are regarded as leading specialists in the merchandising sector—George Hartman of Brown, Baldwin, Nisker Limited and Donald Tigert of Burns Fry Limited—were invited to review Dylex's progress and its position in the industry, particularly as a leading specialty fashion retailer. The questions on corporate aspects were answered by senior executives and those on specific divisions by top management in women's, men's and family wear and manufacturing.

CORPORATE

Q. *Can Dylex maintain its historical growth rate?*

A. We are more confident than ever that we can achieve our expansion potential. This is based on the amount of retail space being developed across the country. Some major cities have new regional centres planned or under development and additional future growth will occur in new shopping centres and downtown retail space in medium sized and smaller cities.

We are also filling in markets where we have not been fully represented and in existing shopping centres where we weren't located. While this applies to all of our chains, Suzy Shier and Town and Country have proven to be very adaptable to these markets because of their smaller-sized stores.

Some of our stores in smaller cities are among our best on a "per square foot" comparison. Their productivity is well above average because the shopping centres where they are located draw from a very wide outlying area and yet their occupancy costs are lower.

Q. *What gave rise to the tremendous growth of specialty chains in recent years?*

A. It came about with the rapid development of regional centres which linked well-known department stores with a number of diversified individual stores and services. Climate-controlled aesthetically pleasing structures and convenient parking attracted shoppers. The huge amount of development called for a great many specialty stores and this opportunity was taken up by the more aggressive and successful existing chain stores and independent retailers. The larger chains' entrepreneurial flair and determination to grow quickly has given them dominant nation-wide market position.

Q. *What factors are considered when deciding to go into a shopping centre?*

A. The two most important aspects are the size of the market and the calibre of the department stores which anchor the centre. We also need to be assured that there is good overall mix of tenants including competing specialty stores so there will be sufficient diversity to attract the public. Generally we find that the shopping centre developers have done a responsible job of planning and leasing to ensure the success of the centre.

Q. *Do present conditions favour the continued growth of specialty chains?*

A. A number of factors are still favourable to the specialty chains. Because of the smaller size of their individual outlets specialty chains can go into places where a department store does not have a large enough market. They can also add more stores in the downtown area of a major city such as Toronto without reducing the business done by their existing stores. Since specialty stores can concentrate on a specific range of goods and offer more personal service, they can be more flexible in many aspects of merchandising and are able to respond faster to changes in the market.

Q. *How successful are stores in new downtown office complexes?*

A. Our experience to date in these complexes has been somewhat mixed. Any future development opportunities will be reviewed very carefully before we would make a commitment. In most instances a large department store in the centre would be a prerequisite for our involvement.

Q. *How can you improve performance in the current climate of rapidly increasing costs?*

A. Increasing sales per square foot is the key to future profitability. All our divisions are aggressively seeking out ways of improving store productivity. By increasing volume the fixed component of our costs declines as a percentage of sales. We are also attempting to improve our margins through the use of systems designed to increase inventory turns.

Q. *How long are your average leases and will you be facing large increases as they are renegotiated?*

A. Our total retail space is about 2.6 million square feet with most stores on 20-year leases. The lease period is slightly less for some of the 50 percent owned chains. The possible increases are a factor but we will not have to face the problem to any degree for some years to come. There is another aspect to consider regarding leases. Most people look upon leases as a cost of doing business but more importantly our vast amount of space on long-term leases are in fact an asset not only in terms of market dominance but in a very real financial sense.


BRAEMAR ■ SUZY SHIER ■ RUBYS SHOES ■ TOWN &
TOWN & COUNTRY ■ FAIRWEATHER
SUZY SHIER ■ RUBYS SHOES ■ TOWN &
TOWN & COUNTRY ■ FAIRWEATHER
BRAEMAR ■ SUZY SHIER
FAIRWEATHER ■ BRAEMAR
RUBYS SHOES ■ TOWN & COUN

Fairweather feature the latest in affordable fashion.

WOMEN'S WEAR

Q. *What are your plans for the Fairweather chain over the next five years?*
A. The rapid sales growth of 20 percent annually over the past nine years should moderate to 15 percent. Total selling area is expected to grow at approximately seven to nine percent annually with the balance of the increase coming from higher productivity on a store for store basis. The degree of our growth in secondary centres is dependent upon our experience in those centres we are now entering. Store sizes will probably stay about the same in most locations.

Q. *What is the profit outlook for Fairweather?*
A. The return on sales has been improving but has not yet reached our long term goal. We are confident that our overall target of a 10 percent return will be attained in the early 1980's. Gains will come as the systems implemented over the past few years begin to mature. Gross margins should improve as a result of better inventory control. Our administration expenses relative to sales should decline as sales increase.

Although we haven't yet reached our profit goal, our return on total invested capital is now comparable to the better Canadian specialty women's retailers and our stock to sales ratio averages between four and five turns.

Q. *Fairweather is looked upon as a highly promotional chain—do you intend to continue this way?*
A. Promotional sales were necessary in the past to generate consumer interest and build sales volume as we moved into larger stores and broke into new markets. Our future growth will not be at the same rate but we believe promotional activity will still be required to increase sales on a per square foot basis.

Q. *How is Fairweather reacting to the demographic changes in the youth market?*
A. Although many of our customers are still in the 25 and under age group, we are adjusting to changes through store design techniques, the use of designer concepts such as the "Daniel Hechter" line of clothing and a gradual increase in the fashion range of our merchandise.

Q. *What are the differences between Fairweather and Suzy Shier and between Braemar and Town and Country?*
A. Fairweather and Suzy Shier are direct competitors in a substantial number of product lines. Fairweather stores however are larger and carry more merchandise categories. Braemar appeals to a more sophisticated customer and usually has higher price points while Town and Country sells across a wider age and size group.

Q. *Is Suzy Shier meeting the corporate goals?*
A. Suzy Shier is currently adjusting to the efforts of a very aggressive expansion program which has resulted in nearly 200 percent increase in space since mid-1975. With all its energy focused on new store openings, management has not been able to maintain the tight control on financial and inventory operations necessary to improve profit margins.

Q. *What steps are being taken to rectify this situation?*
A. Expansion will grow at an average of 8-12 stores in each of the next three years and senior staff has been delegated the responsibility of bringing margins into line. The introduction of new data processing equipment should improve our inventory management and help bring gross margins to levels which will increase profitability.

Q. *Where will new Suzy Shier stores be located?*
A. The expansion will take place principally in Western Canada, with the exception of British Columbia, and some locations in Ontario, Quebec and the Maritimes. We feel the chain has good potential for growth in Alberta, particularly in Edmonton.

Q. *What is happening in the Town and Country chain?*
A. Town and Country appears to have successfully absorbed its rapid growth in 1978 as evidenced by the fact that healthy profit levels were maintained. However, the test will come in 1979 which will be the second year of major expansion.

Q. *What are Town and Country's current expansion plans?*
A. We expect to open about 16 stores in 1979, in Ontario, Western Canada and the Maritimes. Growth in 1980 will continue at an expected rate of 10-15 percent. Our distribution centre has recently expanded and can now handle up to 120 stores. When the chain grows beyond these limits it will be necessary to expand our facilities—possibly with mechanical systems. We are confident Town and Country can achieve a sales increase in the current year of above 20 percent.

Q. *Has Braemar justified the spin-off from Fairweather?*
A. It is too early for a definitive answer but present indications are that we have correctly identified the market. Braemar will continue with a modest expansion program compared to other women's wear chains and—as a result—should enjoy better profit margins as its identity is firmly established.


FAMILY FAIR
THRIFTY'S
BI WAY

Thrifty's provide its customer with a wide selection of styles and sizes.

MEN'S WEAR

Q. *What are Tip Top's growth plans?*
A. Over the past nine years Tip Top has had a growth rate of better than 18 percent annually. Sales are expected to grow during the early 1980's at about 15 percent. This will come from additional selling space in new stores of about six to eight percent each year and increased productivity. As a result of continuing pressure from occupancy and other store costs many of our new stores will be smaller than those opened in the 1970's.

Q. *What progress is Tip Top making towards corporate profitability goals?*
A. The men's wear business has traditionally not been as profitable as women's wear primarily because of the need to carry larger inventories. We still expect to reach the corporate profit goals by the early 1980's. In recent years retailers have generally attempted to cover higher selling and occupancy costs by increasing gross margins. We believe that consumers will resist further changes, particularly in the price level of high ticket items such as suits. Improvements in sales productivity will thus be the key to future profitability. During the mid 1970's higher administrative costs have also tended to erode any gains we made in gross margin. These costs have now peaked and should not inhibit future profitability.

Q. *Do you plan to continue Tip Top's promotional profile?*
A. Promotion has played an important part in our growth both in entering new markets and extending coverage of markets where we were established. Currently about 40 percent of our suit business is done at regular prices and the remainder at promotional prices. It is our intention to maintain our present promotional policy.

Q. *Will the Harry Rosen chain expand outside Greater Toronto?*
A. In the next two or three years it will stay in the Toronto area, but beyond that time it may expand to other cities.

Q. *What has been the effect of the conversion of Big Steel to men's wear?*
A. Big Steel Man has had a sharp rise in sales and is providing strong competition in the under 25 market. We expect that its market position will continue to strengthen.

Q. *Do you see any significant changes in men's wear merchandising?*
A. Men's stores, particularly those with high suit volumes, require personalized service and we don't see this changing. Competition between the specialty chains and the department stores will continue, as will the erosion in market share held by the smaller independents.

The current trend to more casual style of office dress will probably continue and suits will be under increasing inflationary pressure. However, we don't foresee any significant decline over the next five years in the number of suits sold unless the price of suits escalates sharply. Customers will probably then turn to purchases of sport coats and slacks and we may end up selling more units under these circumstances.

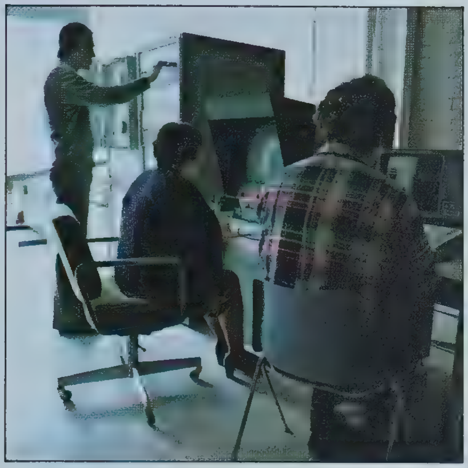
FAMILY WEAR

Q. *What accounts for the turnaround in Family Fair's position?*
A. Although there are a number of factors that can be cited, the introduction of a new merchandising approach emphasizing low prices seems to be the key. Dropping prices increased sales by over 30 percent on a store for store basis.

Because we have self service stores, we were able to do more business with only a slight increase in costs. For example three years ago wage costs were over 10 percent of sales, this year they were six to seven percent and next year they will be only five to six percent. Also, our administrative costs have increased only 10 percent in the past seven years.

One of the problems with Family Fair was unrelated to merchandising. As a result of decisions made several years ago, some of our stores were too large and in poor locations. We closed some stores and reduced the size of many others. In all more than 100,000 square feet of surplus space was eliminated. In selecting new store locations the emphasis has been on balancing costs and volumes. For example, where rents are high such as in regional malls, we've opened smaller stores in order to maintain profitability.

Q. *What are Family Fair's plans?*
A. Although we are confident about the potential of Family Fair, we are taking a cautious approach to development at this time. So far we have opened three stores in 1979 and made commitments for two other locations for the fall. New stores are in different types of locations—a regional mall, a street-front location with no parking, an older strip shopping centre and an urban redevelopment in a smaller city. Our present distribution facilities could handle up to 60 stores and with additional floor space that is available we could serve 80 or 90 stores.



Our manufacturing divisions are using computer assisted production methods to improve operations.

Q. *How would you describe Bi-Way stores?*
A. We believe our Bi-Way stores meet the basic clothing and household needs of Ontario consumers. Approximately 60 percent of our sales are clothing, with the balance split between health and beauty aids and special seasonal items. Our customers come from all income levels and are attracted by the superior value of our merchandise.

Our stores are found in a variety of locations, including strip malls and street front stores. They have one thing in common however, low rentals. Our low cost, high volume outlets provide real value to our customers.

Traffic is generated through newspaper and flyer advertising and by our reputation for good merchandise at low cost. We feel that customers are looking for better value at prices within their budget and this is where we direct our emphasis. Competition comes from other specialty chains in family clothing and from the promotional department store chains.

Q. *What are your plans for the chain?*
A. Our plan calls for about five to six stores per year over the next five years. Although we expect to open stores throughout Southern Ontario, we will continue to be centred in the Greater Toronto region. Store sizes will not change appreciably and the new stores will be mainly in our present type of low cost locations. We will, however, consider regional shopping malls if suitable rental deals can be made.

Q. *Can you maintain your profit level?*
A. There shouldn't be any significant change in our return on sales. We expect to maintain our margins at their current low levels. Any expense increases can be offset by higher sales productivity. Our present administrative staff and operating systems will be able to handle the planned expansion program without major changes in costs.

Q. *How have the changes in the youth oriented market affected Thrifty's?*
A. During the 1970's the growth in jeans and other denim products was unprecedented in both its strength and duration. Thrifty's took advantage of the trend to build a national chain of stores earning an above average return. During the past 12 to 18 months sales on a store for store basis have levelled off. We believe that a number of factors have contributed to this slowdown. The major reason is a change to a more varied range of clothing styles by young people. Although denim jeans are still an important part of most young people's wardrobe, they are not the uniform they were previously. Many of our more mature customers are not buying jeans with the same frequency. In addition the ease of entry and profitability of the denim market prompted a tremendous expansion. With the change in lifestyles, competition pressures are greater than before. The escalation of jean prices in recent years also has contributed to the levelling of sales.

Q. *What steps are being taken by Thrifty's?*
A. We anticipated an eventual change in the market place and as a result have already taken a number of steps to maintain our profitability. Thrifty's has always provided its customers with a broad range of styles and sizes. Our inventory has been expanded to include a broader selection of items such as cords and designer jeans to meet our customers current needs.

In the past, price has not been a major factor in the market. As a result of the change in consumer lifestyles and the increase in competition we will be more promotion oriented in our marketing. We are also making greater use of our "Thrifty's" label which provides the same quality but sells at a much lower price than the brand name products.

We are currently reviewing our profitability on a store for store basis. Those units not coming up to standard will be closed. We are also looking at all store costs from layout and fixturing to lighting levels and staffing schedules to maximize returns without noticeably affecting the customers' perception of service standards.

MANUFACTURING

Q. *How significant are the Dylex manufacturing operations?*
A. It has always been our corporate strategy to devote most of our energies to building Dylex as a strong and successful retailer. From the beginning however, we have had manufacturing operations such as Canadian Clothiers and Irving Posluns Sportswear.

Our consolidated sales of $30 million does not reflect the extent of Dylex's involvement in manufacturing. Canadian Clothiers whose results are included with the retail divisions produced approximately $22 million in suits in 1978. Since most of these were sold to Tip Top the sales were eliminated from the consolidated statements. In addition manufacturing sales of $59 million were made by our non consolidated associates, the Forsyth Group and Manchester Manufacturing Inc.

Q. *What is the growth potential?*
A. Over the past few years our manufacturing operations have grown substantially. Canadian Clothiers has steadily increased production as Tip Top expanded while Forsyth dramatically increased its market share under new management and Manchester Children's Wear has enjoyed substantial growth since it expanded into the women's coat market.

At this time we remain optimistic about the potential of our manufacturing operations. We anticipate significant gains from Manchester and National Knitting in 1979 although increases should moderate in subsequent years. Our other divisions including Nu Mode Dress and Irving Posluns Sportswear should continue to contribute to overall profitability. The introduction of import quotas does not appear to have had any significant impact on our operations to date but the potential does exist for changes to be made in the existing regulations which could upset the current market balance.

Under existing accounting rules a company cannot report as part of the consolidated statements the operating results of investments in which it has a significant influence but owns 50 percent or less of the shares. In order to highlight the total impact Dylex has on the Canadian retail market supplementary data, incorporating both consolidated and non-consolidated retail operations such as Town and Country and Bi-Way, has been provided.

Combined retail sales increased from $274.9 million to $369.7 million or 34.5 percent in the year ended February 3, 1979. Consolidated sales increased 21.5 percent from $271.3 million to $329.5 million.

Women's wear
Consolidated women's wear sales increased 22.0 percent from $86.3 million to $105.4 million. Combined retail sales increased from $111.8 million to $140.5 million or 25.7 percent. The previous year's figures have been adjusted to exclude the men's wear portion of Big Steel previously reported as part of Fairweather. These sales are now included with the men's wear divisions.

	1978	1977
Consolidated sales ('000)	$105,358	$ 86,324
Associate sales ('000)	$ 35,104	$ 25,431
Combined sales ('000)	$140,462	$111,755
% Increase		
—consolidated	22.0	6.8
—associate	38.0	13.7
—combined	25.7	8.3
Sales per square foot (combined sales)	$148	$135

During the year Fairweather completed the conversion of its unisex boutiques into Big Steel Man resulting in an 18 percent decrease in its retail floor space. With improved productivity in the existing stores and the addition of 12 new outlets the division was able to maintain its strong market position. Suzy Shier opened 17 new outlets during the year. In fall 1977 Braemar was set up as a separate division. Under the new approach sales increased over 20 percent, establishing a strong base for future growth.

Town and County, included as part of associate sales, had a 38.9 percent increase in overall sales due to the opening of 19 new stores and a 21.5 percent increase in productivity in existing stores. The improvement reflects changes in store operating techniques and inventory management. Ruby Shoes, another investment, recorded a 34.7 percent increase in sales during the year as a result of improved productivity and the addition of five new outlets.

Men's wear
Men's wear sales increased to $111.4 million from $93.2 million or 19.5 percent.

	1978	1977
Consolidated and combined sales ('000)	$111,411	$93,233
% Increase	19.5	16.1
Sales per square foot (combined sales)	$154	$148

Tip Top sales were strong during the latter part of the year reflecting a general bouyancy in the men's wear market. During the year, 13 new stores were opened and five were closed to improve the division's market penetration and overall profitability. Harry Rosen continued as a fashion leader among more sophisticated customers. Sales increased nearly 22 percent during the year, reflecting the addition of one store and improved productivity.

Big Steel Man, which was created to serve the young men's market, was extremely successful. Customer acceptance of the concept is reflected in the strong sales performance during the first year of operation.

Family
Sales of the consolidated family retail chains increased 18.4 percent from $69.9 million to $82.7 million. With the addition of Bi-Way Stores Limited in July 1978, Dylex's combined sales increased 68.6 percent to $117.9 million.

	1978	1977
Consolidated sales ('000)	$ 82,719	$69,889
Associate sales ('000)	$ 35,136	—
Combined sales ('000)	$117,855	$69,889
% Increase		
—consolidated	18.4	12.6
—combined	68.6	12.6
Sales per square foot (combined sales)	$164	$121

Family Fair recorded a 41.2 percent increase in sales in 1978 as a result of improvements in sales per square foot and the opening of two new stores. One store was closed during the year as part of a continuing program to improve profitability.

In the early 70's Thrifty's successfully served the strong consumer demand for jeans and casual clothing. Although demand for denim products has been of unprecedented duration, the change in consumer preference has been evident over the past year. The decline in demand, combined with competitive pressures on some of Thrifty's newer stores in Western Canada resulted in a levelling off in store for store sales. During the year 11 new stores were opened and one was closed.

The combined retail sales reflect the results of Bi-Way since the date of acquisition. For the full year, Bi-Way had a 29.3 percent increase in sales. The increase occurred as a result of both productivity gains and the opening of new outlets. At the date of acquisition, Bi-Way operated 29 stores and subsequently one new store was opened.

Manufacturing
Consolidated manufacturing sales increased 37.5 percent from $21.8 million to $30.0 million in 1978, reflecting a significant improvement in some of the manufacturing divisions. Manchester Children's Wear increased sales 57 percent following a 52 percent increase in the previous year.

National Knitting achieved record sales in 1978 reflecting the acceptance of their product lines by Canadian retailers. Nu Mode Dress continued to improve its market acceptance with a sales improvement exceeding 18 percent.

Not all our manufacturing divisions are included in the consolidated operating results. In 1978 the Forsyth Group had a sales increase of 10 percent and sales for Manchester Manufacturing Inc. increased over 17 percent. Together these companies had sales of $59.9 million.

Costs and expenses
Over the past few years retail gross margins have increased sharply to cover escalating operation costs. At this time, further profit improvements from gross margins will probably occur only through better inventory control rather than pricing increases.

Overall gross margins for our women's wear divisions were slightly lower than last year, primarily as a result of promotional action taken by Fairweather in specific product categories.

In 1977 Tip Top made intensive use of promotions in order to maintain sales levels. This approach was unnecessary in 1978, particularly during the latter part of the year. As a result, gross margins improved. Margins in Harry Rosen were basically unchanged.

Margins in Family Fair were low throughout 1978 reflecting the division's decision to concentrate on sales volume rather than gross margin percentage. Thrifty's increased its gross margins through improved inventory control procedures. Bi-Way continued to follow its normal low margin, high volume practice.

Although they remained stable as a percentage of sales, labour costs and occupancy costs such as rent, construction and energy remained of major concern.

A number of factors contributed to higher financial costs during the year. These included higher interest rates and higher borrowing levels used to finance operations and the acquisition of Bi-Way Stores Limited.

Investments
Income from investments increased sharply during the year, primarily as a result of our investment in Bi-Way in July, 1978.

Sales of the non-consolidated retail operations increased from $25.4 million to $70.2 million or 176 percent. The manufacturing companies increased sales 12 percent to $59.9 million.

Earnings
Net consolidated earnings increased 41.5 percent to $12.1 million or $2.04 per share compared with $8.5 million and $1.47 in 1977.

Balance sheet
Working capital increased $8.3 million from $37.9 million to $46.2 million. The working capital ratio declined slightly to 2.0:1.

Accounts receivable balances increased 41.5 percent from $21.2 million to $30.0 million. The increase is due to a greater utilization of our own credit facilities by retail division customers, a slow down in collections of consumer credit accounts, higher receivables resulting from improved manufacturing sales and advances to contractors for the construction of store facilities which will be leased in 1979.

Inventory balances increased 26.9 percent during the year from $48.7 million to $61.8 million. The increase in retail inventories resulted from a build up of retail inventories and the need to stock new stores during the year. In manufacturing, finished goods increased as a result of the early booking and production of orders for 1979. Because of delivery problems for raw materials, yard good purchases were made earlier.

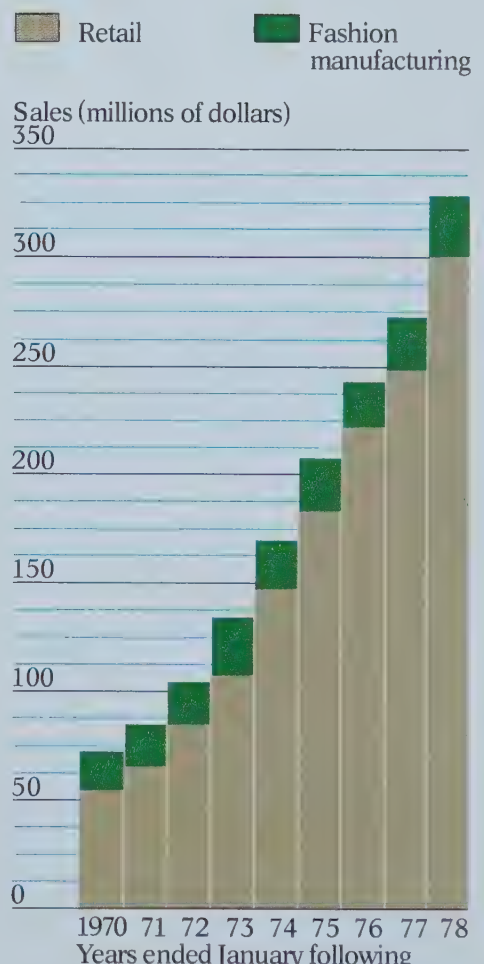
In 1978 Dylex acquired a 50 percent interest in Bi-Way Stores Limited for $7.7 million. The investment was partially financed by long-term notes. Part of our original investment in the preference shares of the Forsyth Group were redeemed during the year.

Fixed assets increased to $21.6 million with the purchase of a new manufacturing plant in Toronto, acquisition of additional in store point of sale equipment as well as renovations to our head office, distribution centre and some retail stores.

The balance sheet does not reflect store equipment and fixturing which is leased through commercial leasing companies. At the year-end, these assets had a present value of approximately $30 million.

During 1978, the first mortgage on the head office building was refinanced at rates tied to the lenders cost of borrowing. The point of sale terminals and related equipment were financed by notes secured by chattel mortgage.

Minority interest reflects our partners' share of the consolidated subsidiaries—Thrifty's and Suzy Shier.



	(Years ended January following)	1978	1977	1976
Consolidated operating results (thousands of dollars)	*Sales*			
	Retail	$299,488	249,446	223,197
	Fashion manufacturing	34,835	25,416	24,700
	Inter-group	(4,811)	(3,577)	(3,662)
	Net sales	*$329,512*	*271,285*	*244,235*
	Net earnings before extraordinary items	$ 12,082	8,541	7,274
Earnings per share before extraordinary items	1st Quarter	$ 0.22	0.17	0.18
	2nd Quarter	0.14	0.12	0.16
	3rd Quarter	0.79	0.56	0.50
	4th Quarter	0.89	0.62	0.41
	Total	*$ 2.04*	*1.47*	*1.25*
Financial analysis	Working capital (note 1)	$ 46,202	37,943	29,982
	Working capital ratio	2.0	2.2	1.9
	Book value per share	$ 11.00	9.29	8.04
	Asset turnover	2.8	2.8	2.8
	Shareholders' equity (note 1)	$ 65,215	55,059	46,839
	Return on equity—percent	20.1	16.8	16.6
	Return on sales—percent	3.7	3.1	3.0
Shareholders information	Number of shareholders	1,936	2,279	2,592
	Average shares outstanding ('000)	5,926	5,826	5,826
	Dividends on class "A" shares	0.325	0.225	0.225
	Toronto Stock Exchange Quotation Class "A" shares—high	14¾	8½	8¼
	—low	8	6⅜	5⅝
Retail information— (Consolidated and associate operations) (Note 2)	*Sales* (thousands of dollars)			
	Consolidated	$299,488	249,446	223,197
	Associate	70,240	25,431	22,361
	Total	*$369,728*	*274,877*	*245,558*
	Sales by market			
	Women's	$140,462	111,755	103,174
	Men's	111,411	93,233	80,306
	Family	117,855	69,889	62,078
	Total	*$369,728*	*274,877*	*245,558*
	Number of Stores	569	466	408
	Store space at year end ('000 sq. ft.)	2,592	2,091	1,900
	Average store space during year ('000 sq. ft.)	2,347	1,986	1,833
	Sales per square foot (note 3)			
	Women's	$ 148	135	132
	Men's	$ 154	148	150
	Family	$ 164	121	106
	Total retail	*$ 155*	*135*	*130*

1975	1974	1973	1972	1971	1970
$187,625	148,298	107,446	82,768	66,253	54,405
23,941	25,488	27,124	23,688	20,481	17,803
(3,355)	(2,495)	(2,016)	(1,241)	(1,582)	(1,045)
$208,211	*171,291*	*132,554*	*105,215*	*85,152*	*71,163*
$ 7,424	5,242	4,466	3,781	2,333	408
$ 0.15	0.13	0.10	0.07	—	—
0.15	0.12	0.10	0.07	—	—
0.52	0.32	0.27	0.22	—	—
0.45	0.33	0.30	0.29	—	—
$ 1.27	*0.90*	*0.77*	*0.65*	*0.40*	*0.07*
$ 26,916	22,556	17,848	12,001	11,432	9,859
1.8	1.8	1.6	1.4	1.7	1.6
$ 7.01	5.95	5.19	4.00	3.37	2.92
2.7	2.5	2.1	—	—	—
$ 40,876	34,654	30,228	23,264	19,476	16,845
19.7	16.2	16.7	—	—	—
3.6	3.1	3.4	3.6	2.7	0.6
2,683	2,869	2,743	2,693	2,680	2,337
5,826	5,826	5,826	5,803	5,786	5,774
0.20	0.14	0.12	0.075	0.005	0.005
8⅞	7⅜	12¾	11⅞	4.62	4.00
4.30	3.00	5⅝	4.25	1.80	1.75
$187,625	148,298	107,446	82,768	66,253	54,405
18,663	16,750	12,710	7,055	4,876	3,600
$206,288	*165,048*	*120,156*	*89,823*	*71,129*	*58,005*
$ 89,824	70,223	47,346	36,184	28,794	21,487
65,658	55,500	44,177	36,826	29,450	24,932
50,806	39,325	28,633	16,813	12,885	11,586
$206,288	*165,048*	*120,156*	*89,823*	*71,129*	*58,005*
361	292	246	168	142	131
1,789	1,612	1,385	933	820	753
1,705	1,501	1,145	855	796	689
$ 128	121	113	109	92	79
$ 141	127	124	127	105	96
$ 85	73	70	68	55	50
$ 117	*106*	*101*	*103*	*88*	*80*

Notes

1. Goodwill on acquisitions prior to 1974 has been written off. Finance subsidiary excluded in 1970 and 1971. Earnings have been adjusted for the disposal of the Home Products Group at the end of 1972.

2. All retail information reflects the results of both subsidiaries which are consolidated and associates (Town & Country, Bi-Way, Ruby Shoes) which are not consolidated.

3. Based on average square footage in use excluding outside wholesale sales and sales of integrated manufacturing divisions.

CONSOLIDATED STATEMENT OF EARNINGS
Dylex Limited

		February 3, 1979	January 28, 1978
		(53 weeks)	(52 weeks)
		(thousands of dollars)	
Sales	Retail	$299,488	$249,446
	Fashion manufacturing	30,024	21,839
	Net sales	*329,512*	*271,285*
	Customer service income	2,692	1,764
		$332,204	*$273,049*
Earnings	*Earnings from operations before the following charges*	*$ 25,191*	*$ 19,588*
	Depreciation	3,065	2,695
	Amortization of deferred charges	225	180
	Amortization of goodwill	81	24
	Interest on long-term debt	908	759
	Other interest	1,962	809
	Earnings before income taxes	*18,950*	*15,121*
	Income taxes	8,215	6,569
		10,735	*8,552*
	Income from investments (note 5)	2,820	1,441
	Minority interest in subsidiaries' earnings	(1,473)	(1,452)
	Earnings before extraordinary item	*12,082*	*8,541*
	Gain on sale of interest in manufacturing division, net of income taxes of $54	—	290
	Net earnings	*$ 12,082*	*$ 8,831*
Earnings per share	*Before extraordinary items*	*$ 2.04*	*$ 1.47*
	For the year	*$ 2.04*	*$ 1.52*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Dylex Limited

		February 3, 1979	January 28, 1978
		(thousands of dollars)	
	Balance, beginning of year	*$29,620*	*$22,078*
	Net earnings	12,082	8,831
	Transfer from appraisal excess	22	22
		41,724	*30,931*
Dividends	Common shares (1979—32½¢; 1978—22½¢ per share)	267	186
	Class "A" shares (1979—32½¢; 1978—22½¢ per share)	1,659	1,125
		1,926	*1,311*
	Balance, end of year	*$39,798*	*$29,620*

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Dylex Limited (Incorporated under the laws of Canada)

		February 3, 1979	January 28, 1978
		(thousands of dollars)	
Current assets	Cash and short term deposits	$ —	$ 97
	Accounts receivable (note 2)	29,970	21,183
	Inventories (note 3)	61,791	48,682
	Prepaid expenses	1,547	726
	Notes and other investments due within one year (note 6)	373	216
		93,681	*70,904*
Current liabilities	Bank indebtedness	2,210	—
	Accounts payable	31,448	27,077
	Income and other taxes payable	6,698	1,090
	Notes payable (note 4)	5,434	2,067
	Long-term debt due within one year (note 8)	1,689	2,727
		47,479	*32,961*
	Working capital	*46,202*	*37,943*
Other assets	Investments in associate companies (note 5)	16,074	7,964
	Notes and other investments (note 6)	2,938	3,259
	Fixed assets (note 7)	21,642	18,060
	Deferred charges at cost less amortization	—	225
	Goodwill at cost less amortization	897	922
	Assets employed	*$87,753*	*$68,373*
Financed by— Other liabilities	Long-term debt (note 8)	$14,800	$ 7,235
	Deferred income taxes	1,226	1,040
	Minority interests	6,512	5,039
		22,538	*13,314*
Shareholders' equity	Capital stock (note 9) Common shares	1,730	1,732
	Class "A" shares	22,053	22,051
	Excess of appraised value of fixed assets over cost	1,634	1,656
	Retained earnings	39,798	29,620
		65,215	*55,059*
	Capital employed	*$87,753*	*$68,373*

Approved on behalf of the board: J. F. Kay, Director, W. Posluns, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Dylex Limited

		February 3, 1979	January 28, 1978
		(thousands of dollars)	
Source of funds	Net earnings	$12,082	$ 8,831
	Depreciation and amortization	3,371	2,899
	Income from investments	(2,820)	(1,441)
	Increase in deferred income taxes	186	302
	Minority interest in net earnings	1,473	1,452
	Funds from operations	*14,292*	*12,043*
	Increase in long-term debt (net)	7,565	971
	Decrease in investments	2,750	560
	Disposal of fixed assets	45	319
	Issue of class "A" shares	—	700
	Decrease in deferred charges	—	158
		24,652	*14,751*
Use of funds	Acquisition (note 5)	7,725	—
	Fixed asset additions	6,692	4,885
	Dividends	1,926	1,311
	Increase in investments	50	509
	Minority interest—dividends	—	85
		16,393	*6,790*
	Net increase in working capital	*8,259*	*7,961*
	Working capital, at beginning of year	*37,943*	*29,982*
	Working capital, at end of year	*$46,202*	*$37,943*

AUDITORS' REPORT
To the Shareholders of Dylex Limited

We have examined the Consolidated Statement of Financial Position of Dylex Limited as at February 3, 1979, and the Consolidated Statements of Earnings, Retained Earnings and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Company as at February 3, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wm. Eisenberg & Co.
Chartered Accountants

Toronto, Canada
March 23, 1979

The accompanying notes form an integral part of the financial statements.

1. Accounting policies

Principles of consolidation
The Consolidated Financial Statements include the accounts of all divisions and subsidiaries of Dylex Limited as well as the Company's share of the assets, liabilities, sales and expenses of its unincorporated joint venture (Nu Mode Dress). All significant intercompany transactions have been eliminated.

Where 50% or less of the outstanding common shares of associate companies are held, the investment is initially recorded at cost and adjusted annually to reflect the Company's share of earnings and dividends.

Inventories
Retail store inventories are valued, using the retail inventory method, at the lower of cost and net realizable value, less normal profit margins. Manufacturing inventories are priced at the lower of cost (principally on a first-in, first-out basis) and net realizable value.

Fixed assets
Fixed assets are recorded at cost, except for the Company's property at 637 Lake Shore Boulevard West, Toronto, which is at 1967 appraised value. The appraisal excess is being transferred to retained earnings at the rate used for the depreciation of buildings.

Depreciation is designed to amortize the fixed assets on a straight-line basis over their estimated useful lives at the following rates:

Buildings	2½%
Building renovations	20%
Equipment and leasehold improvements	10 to 20%
Automotive	25%

When fixed assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is reflected in the Consolidated Statement of Earnings.

Goodwill
The excess of purchase price over the fair market value of the net assets of subsidiaries and associates is being amortized on a straight-line basis over a period not exceeding forty years. Goodwill on acquisitions prior to March 31, 1974 was written off to retained earnings.

Deferred income taxes
The Company follows the deferral method of income tax allocation under which the provision for income taxes relates to the accounting income for the period. The accumulated tax reductions applicable to future years result principally from claiming amounts for tax purposes in excess of book depreciation.

Pension plan
The Dylex pension plan is a unit benefit career average plan which, based on actuarial reviews, has no unfunded liability for either past or future service. All current costs are expensed as incurred.

Store opening costs
All costs associated with the opening of new stores are expensed as incurred.

		1979	1978
2. Accounts receivable	Retail, including consumer credit accounts	$20,880,000	$16,133,000
	Fashion manufacturing	4,302,000	3,395,000
	Other, including associate companies	4,788,000	1,655,000
		$29,970,000	*$21,183,000*
3. Inventories	Retail	$54,295,000	$43,428,000
	Fashion manufacturing	7,496,000	5,254,000
		$61,791,000	*$48,682,000*

4. Notes payable

This amount is comprised primarily of a short-term notes payable by the finance subsidiary to associate companies.

5. Investments in associate companies

	Percentage Ownership
Bi-Way Stores Limited	50%
Brody's Town & Country (1967) Limited	50%
Drug World Limited	50%
The Shoe Shoppe Limited	50%
Manchester Manufacturing Inc.	42%
Forsyth Trading Company Limited and its subsidiaries	33⅓%

Effective July 21, 1978, the Company acquired a 50% interest in Bi-Way Stores Limited for cash and notes payable as follows:

Total net assets at fair values	$6,416,000
Deduct minority interest's share in the total net assets	3,208,000
Net assets acquired	3,208,000
Excess of purchase price over fair value of net assets acquired (To be amortized over 40 years)	4,517,000
Purchase price	*$7,725,000*
Consideration given: Notes payable (note 8)	$4,000,000
Cash	3,725,000
	$7,725,000

6. Notes and other investments

This item includes a 7% unsecured note for $2,584,000 from Strathearn House Group Limited, due February 15, 1983, and repayable in equal monthly instalments on a 15 year amortization basis.

		1979	1978
7. Fixed assets	Land	$ 1,370,000	$ 1,181,000
	Buildings	7,091,000	6,020,000
	Equipment and leasehold improvements	29,110,000	25,075,000
		37,571,000	*32,276,000*
	Accumulated depreciation	15,929,000	14,216,000
		$21,642,000	*$18,060,000*

		1979	1978
8. Long-term debt	*Notes payable*		
	By the finance subsidiary, principally to directors, officers and shareholders of the Company and their associates at prime bank rate. Current notes which are expected to be renewed are shown as long-term	$ 3,177,000	$3,673,000
	Prime less 1%, due July 21, 1983 (note 5)	4,000,000	—
	Finance company notes secured by chattel mortgages	2,083,000	149,000
	Non-interest bearing, due December 1, 1980	179,000	268,000
	To an associate company at prime bank rate	—	2,029,000
	First mortgages on buildings		
	Lender's cost of borrowing, plus 1¼%, due May 15, 1985	4,711,000	—
	9½%, due December 1, 1997	595,000	606,000
	7½%, due June 1, 1986	111,000	—
	10%, due October 15, 1978	—	1,382,000
	Bank term loan, prime plus 1½%, due June 30, 1981	505,000	615,000
	Other, principally landlord loans	1,128,000	1,240,000
		16,489,000	*9,962,000*
	Due within one year	1,689,000	2,727,000
		$14,800,000	*$7,235,000*

Requirements for repayment within the next five years are as follows:	1980	$1,689,000
	1981	3,860,000
	1982	1,263,000
	1983	976,000
	1984	4,884,000

9. Capital stock

Authorized
6,000,000 Common shares without par value
20,000,000 Class "A" participating preference shares, without par value
1,000 Class "B" non-participating, preference shares, without par value

Issued	1979	1978
822,207 Common shares (1978—823,557)	$ 1,730,000	$ 1,732,000
5,103,359 Class "A" shares (1978—5,102,009)	22,053,000	22,051,000

The common shares are convertible into class "A" shares on a one-for-one basis. During the year, 1,350 common shares were converted.

10. Remuneration of directors and officers of Dylex Limited

	1979	1978
Number of directors	19	19
Number of officers	20	19
Directors also officers	12	12
Aggregate remuneration—directors	4,000	4,000
Aggregate remuneration—officers	$3,168,000	$3,065,000

11. Lease commitments

Aggregate rentals paid on property and equipment leases for the year ended February 3, 1979 amounted to $24,485,000 (1978—$20,069,000). Minimum annual rentals for the next five years on long-term property and equipment leases, in effect at February 3, 1979 are:

	Property leases	Equipment leases	Total
1980	$16,275,000	$7,110,000	$23,385,000
1981	16,219,000	6,612,000	22,831,000
1982	16,131,000	5,904,000	22,035,000
1983	16,003,000	4,588,000	20,591,000
1984	15,973,000	2,817,000	18,790,000

12. Anti-inflation legislation

The Company was subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which were phased out during 1978. Management believes that based upon their interpretation and their compliance tests, the Company was in compliance with the legislation.

13. Contingent liabilities

The Company, together with others, has guaranteed the bank loans, notes payable and equipment lease obligations of associate companies and the Key Employee Stock plan to the extent of $3,816,000.

As at February 3, 1979, the outstanding amount covered by these guarantees was approximately $2,393,000, of which amount Dylex holds cross-guarantees from other guarantors for approximately $296,000.

14. Segmented results

The Board of Directors has designated the Company's classes of business as clothing retailer (including the integrated manufacturing division) and apparel manufacturer.

15. Subsequent event

On February 5, 1979, the Company sold a 49% interest in Harry Rosen Men's Wear Limited.

		Total	Fairweather*	Braemar	Suzy Shier	Town & Country	Ruby's*
Women's	British Columbia	17	13	—	—	4	—
	Alberta	16	10	—	4	2	—
	Saskatchewan	1	1	—	—	—	—
	Manitoba	3	3	—	—	—	—
	Ontario	170	40	11	31	65	23
	Quebec	31	9	—	20	2	—
	New Brunswick	14	5	—	4	5	—
	Nova Scotia	10	4	—	2	4	—
	Newfoundland	6	2	—	2	2	—
	Total	*268*	*87*	*11*	*63*	*84*	*23*

		Total	Tip Top	Big Steel Man*	Harry Rosen
Men's	British Columbia	28	17	11	—
	Alberta	27	18	9	—
	Saskatchewan	6	5	1	—
	Manitoba	8	5	3	—
	Ontario	97	51	39	7
	Quebec	33	24	9	—
	New Brunswick	11	6	5	—
	Nova Scotia	10	6	4	—
	Newfoundland	4	2	2	—
	Total	*224*	*134*	*83*	*7*

		Total	Thrifty's	Family Fair	Bi-Way
Family	British Columbia	13	13	—	—
	Alberta	14	14	—	—
	Saskatchewan	4	4	—	—
	Manitoba	8	8	—	—
	Ontario	115	53	33	29
	Quebec	—	—	—	—
	New Brunswick	6	6	—	—
	Nova Scotia	5	5	—	—
	Newfoundland	3	3	—	—
	USA	1	—	—	1
	Total	*169*	*106*	*33*	*30*
	Total retail outlets	*661*			
	*Less integrated units**	*92*			
	Total retail stores	*569*			

*Both Big Steel Man (82 locations) and Ruby's (10 Shoe Shoppe locations) are part of freestanding Fairweather stores.

DYLEX REPRESENTATION IN METROPOLITAN AREAS

Metro areas with populations over 100,000 (1978)	'000	Personal disposable income per capita $	Retail sales per capita $	Women's	Men's	Family
Canada	*23,547*	*6,620*	*2,870*	—	—	—
Toronto	2,880	8,090	3,060	78	48	55
Montreal	2,823	7,110	2,900	12	19	—
Vancouver	1,180	7,810	3,350	15	20	11
Ottawa-Hull	711	8,140	3,100	17	15	4
Winnipeg	588	7,340	2,940	3	8	7
Edmonton	588	7,720	3,860	7	12	7
Quebec City	557	6,730	3,340	6	6	—
Hamilton	535	7,710	2,950	11	8	11
Calgary	506	8,090	3,900	7	12	—
St. Catharines-Niagara	308	7,130	2,920	4	3	1
Kitchener	279	6,970	3,340	11	6	9
London	277	7,290	3,120	11	3	7
Halifax	272	6,780	2,760	10	9	4
Windsor	250	8,220	2,940	4	2	5
Victoria	223	7,020	3,300	3	4	3
Regina	158	7,800	3,780	—	3	2
Sudbury	157	7,320	2,940	3	3	1
St. John's	146	5,360	3,360	6	4	4
Oshawa	141	7,280	3,290	4	2	2
Saskatoon	140	7,780	3,860	1	3	1
Chicoutimi-Jonquiere	130	6,490	2,820	3	2	—
Thunder Bay	121	7,050	3,130	4	2	2
Saint John	114	6,190	2,790	6	4	3
Sherbrook	107	6,050	3,310	3	—	—
Total outlets				*229*	*198*	*139*

COMBINED RETAIL SALES BY REGION ($000)

	Women's		Men's		Family	
	1978	1977	1978	1977	1978	1977
Maritimes	$ 11,737	$ 7,245	$ 10,165	$ 8,147	$ 6,141	$ 4,765
Quebec	9,869	9,434	15,413	10,981	—	—
Ontario	94,060	76,733	55,147	48,769	96,403	51,302
Prairies	15,008	12,194	21,087	17,775	11,938	11,104
British Columbia	9,788	6,149	9,599	7,561	3,373	2,718
	$140,462	*$111,755*	*$111,411*	*$93,233*	*$117,855*	*$69,889*

Retailing	Stores		Location	Average Size	Market Coverage
Women's	Fairweather	87	Across Canada	6,600 sq. ft.	Latest in fashionable moderately priced women's clothing and accessories for the 15-30 age group.
	Braemar	11	Ontario	3,600	Selected lines of fashionable sportswear, dresses and coats.
	Suzy Shier	63	Across Canada	2,500	Medium priced fashionable merchandise for the younger market.
	Town & Country	84	Across Canada	2,600	Medium priced contemporary coats, dresses and sportswear.
	Ruby's	23	Ontario	1,300	Fashionable moderately priced footwear.
	Total	*268*			
Men's	Tip Top	134	Across Canada	4,000	Suits and accessories for the broad middle group of consumers.
	Big Steel Man	83	Across Canada	1,700	Latest in fashionable moderately priced clothing for the younger man.
	Harry Rosen	7	Ontario (Toronto)	5,000	Quality and fashion for the professional and executive.
	Total	*224*			
Family	Thrifty's	106	Across Canada	2,200	Jeans, shirts, jackets and accessories for today's shopper.
	Family Fair	33	Ontario	12,000	Budget merchandise to meet the total clothing needs of Ontario families.
	Bi-Way	30	Ontario (1 USA)	7,600	Low cost clothing and housewares for budget conscious Ontario consumers.
	Total	*169*			

		Product	Brand Names
Manufacturing	Canadian Clothiers	Suits, sports jackets	Leishman, Cerruti, Henley
	NuMode Dress	Dresses	NuMode
	Posluns Sportswear	Women's coats	Posluns, Shapes
	Manchester Children's Wear	Young women's and children's coats	Thunder Bay, Young Canadian
	National Knitting	Women's co-ordinates men's and women's sweaters	New Editions, Signature Collection, Coachman
	Forsyth Group	Men's shirts, sweaters, leisure wear, women's shirts	Forsyth, Pierre Cardin
	Manchester Manufacturing Inc.	Children's coats	Thunder Bay, Young Canadian
	Shane Knit	Women's knits	Picknit

REPRESENTATION IN MAJOR SHOPPING CENTRES IN CANADA

Centre	Location	Sq. ft. '000	No. of stores
Square One	Mississauga	1,541	160
Place Laurier	Quebec City	1,432	275
Eaton Centre	Toronto	1,313	160
Yorkdale	Toronto	1,202	105
Les Galeries d'Anjou	Montreal	1,100	150
Scarborough Town Centre	Toronto	1,070	137
Le Carrefour Laval	Montreal	1,037	130
Chinook Ridge	Calgary	1,020	230
Pacific Centre	Vancouver	1,005	130
Pen Centre	St. Catharines	1,000	105
Sherway Gardens	Toronto	960	195
Les Promenades	St. Bruno	920	175
Polo Park	Winnipeg	871	80
Edmonton Centre	Edmonton	856	101
Fairview Park	Kitchener	850	93
Kingsway Gardens	Edmonton	848	93
Bramalea City Centre	Bramalea	830	127
The Centre Mall	Hamilton	800	83
Devonshire	Windsor	775	90
Fairview Pointe Claire	Montreal	750	85
Place Versailles	Montreal	750	99
Oshawa Centre	Oshawa	734	90
Fairview Mall	Toronto	700	104
Centre Laval	Montreal	700	105
Bayshore	Ottawa	695	100
Southgate	Edmonton	684	48
Place Vertu	Montreal	675	110
Carrefour de l'Estrie	Sherbrooke	660	108
Lansdowne Park	Vancouver	655	140
Eastgate Square	Hamilton	645	109
Place Fleur de Lys	Quebec City	630	100
Shopper's World	Brampton	629	117
Les Galeries Chagnon	Quebec City	626	65
Market Mall	Calgary	620	70
Londonderry Mall	Edmonton	616	87
Park Royal	Vancouver	605	115
Place Ste-Foy	Quebec City	600	97
Burlington Mall	Burlington	600	90
Towne & Countrye Square	Toronto	600	71
Dufferin Mall	Toronto	564	110
Unicity Fashion Square	Winnipeg	556	77
Lougheed Shoppers Mall	Burnaby	549	89
South Centre	Calgary	551	101
Brentwood Mall	Burnaby	540	49
St. Laurent	Ottawa	537	70
Midtown Plaza	Saskatoon	530	63
North Hill	Calgary	512	70

Major Tenants	Dylex Representation
Sears, The Bay	Tip Top, Fairweather, Braemar, Town & Country, Thrifty's, Big Steel, Ruby's, Suzy Shier
Sears, Syndicat, Paquet	Tip Top, Fairweather, Big Steel
Eaton	Fairweather, Town & Country, Thrifty's, Big Steel
Eaton, Simpsons	Tip Top, Harry Rosen, Fairweather, Braemar, Town & Country, Thrifty's, Big Steel, Suzy Shier
Eaton, Simpsons	Tip Top
Eaton, Simpsons	Tip Top, Harry Rosen, Fairweather, Suzy Shier, Town & Country, Thrifty's, Big Steel, Braemar
Eaton, Simpsons	Tip Top, Fairweather, Suzy Shier, Big Steel
Woodwards, Sears	Tip Top, Fairweather, Suzy Shier, Thrifty's, Big Steel
Eaton, The Bay	Tip Top, Fairweather, Thrifty's
Sears, Eaton, Robinsons	Tip Top, Fairweather, Braemar, Thrifty's, Big Steel, Ruby's, Suzy Shier
Eaton, Simpsons	Tip Top, Harry Rosen, Fairweather, Braemar, Town & Country, Thrifty's, Big Steel, Suzy Shier, Ruby's
Simpsons, Eaton, The Bay, Beaucoup	Tip Top, Suzy Shier
Sears, Eaton	Tip Top, Fairweather, Thrifty's, Big Steel
Woodwards, Eaton	Tip Top, Fairweather, Thrifty's, Big Steel
Sears, Simpsons	Tip Top, Fairweather, Town & Country, Family Fair, Thrifty's, Big Steel
Sears, Zellers	Tip Top, Fairweather, Thrifty's, Big Steel, Town & Country
The Bay, Eaton	Tip Top, Fairweather, Town & Country, Family Fair, Thrifty's, Big Steel, Bi-Way
Sears, Robinsons	Tip Top, Fairweather, Thrifty's, Big Steel
Sears, Simpsons	Tip Top, Fairweather, Suzy Shier, Town & Country, Thrifty's, Family Fair, Big Steel, Ruby's
Simpsons, Eaton	Tip Top
The Bay, Pascal, Miracle Mart	Tip Top, Suzy Shier
Eaton, Sears	Tip Top, Fairweather, Town & Country, Thrifty's, Big Steel, Ruby's, Harry Rosen, Suzy Shier
Simpsons, The Bay	Tip Top, Harry Rosen, Fairweather, Town & Country, Thrifty's, Ruby's
Woolco, The Bay	Tip Top
Eaton, The Bay	Tip Top, Fairweather, Town & Country, Thrifty's, Suzy Shier, Big Steel
Woodwards, The Bay	Tip Top, Fairweather
Sears, The Bay, K-Mart	Tip Top
Eaton, Sears, Pascal	Tip Top, Suzy Shier
Woodwards, Eaton	Tip Top, Fairweather, Thrifty's, Big Steel
Eaton, Woolco, Robinsons	Tip Top, Fairweather, Suzy Shier, Town & Country, Big Steel
Sears, Syndicat, K-Mart	Tip Top, Fairweather, Big Steel, Suzy Shier
Simpsons, K-Mart	Town & Country, Thrifty's
Woolco, Sears	Tip Top
Woodwards, The Bay	Tip Top, Fairweather, Big Steel, Thrifty's
Woolco, The Bay, Eaton	Tip Top, Fairweather, Thrifty's, Big Steel
Woodwards, Eaton	Tip Top, Fairweather, Big Steel, Town & Country, Thrifty's
Eaton, Holt Renfrew	Suzy Shier
Eaton, Robinsons, Sears	Tip Top, Fairweather, Braemar, Town & Country, Big Steel
The Bay, Woolco	Tip Top, Fairweather, Town & Country, Big Steel, Suzy Shier
Woolco, Eaton	Tip Top, Family Fair
Woolco, The Bay	Tip Top, Fairweather, Thrifty's, Big Steel
Woolco, The Bay	Tip Top, Thrifty's
Eaton, The Bay	Tip Top, Fairweather, Thrifty's, Big Steel
Eaton	Fairweather, Tip Top, Big Steel, Thrifty's
Sears, The Bay	Tip Top, Fairweather, Big Steel, Ruby's
Sears, Eaton	Tip Top, Fairweather, Big Steel
Sears	Tip Top

Directors

Kenneth Axelrod
D. W. Casey*
George Fine
J. F. Kay
S. F. Kay
David Korn C.A.
Irving Levine
Sydney Loftus
Irving Posluns
Jack Posluns
L. H. Posluns
Wilfred Posluns*
Lionel Robins
Harry Rosen
S. M. Sigel
W. H. Singer
H. J. Stitt Q.C.
Henry Zagdanski
A. H. Zaldin Q.C.*

*Member of Audit Committee

Officers

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Honorary Chairman of the Board

J. F. Kay
Chairman of the Board

Wilfred Posluns
President

Jack Posluns
Executive Vice-President
& Treasurer

Irving Posluns
Executive Vice-President

Kenneth Axelrod
Vice-President
Manchester Clothing

Alfred Callegari
Vice-President
Tip Top

Joel Cooper
Vice-President
Braemar

Gordon Edelstone
Vice-President
Tip Top

George Fine
Vice-President
Family Fair

Irving Levine
Vice-President
Fairweather

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Paul Mancini
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Canadian Clothiers

Lionel Robins
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Fairweather

Harry Rosen
Vice-President
Harry Rosen Men's Wear

David Rosenberg
Vice-President
Corporate Services

Chris Schwartz
Vice-President
Special Projects

Donald Williams
Secretary

Henry Zagdanski
Vice-President
Nu Mode Dress

Transfer Agent and Registrar

National Trust Company Limited

Auditors

Wm. Eisenberg & Co.
Chartered Accountants

Bankers

Bank of Montreal

Listed on

Toronto Stock Exchange
Montreal Stock Exchange

Head Office

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DYLEX
TIP TOP
HARRY ROSEN
BIG STEEL
FAIRWEATHER